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MEMORANDUM FOR: Deputy Director/Intelligence

SUBJECT : Khrushchev's "Theses" on the Reorganization of the Soviet Economy

I. Introduction

On 30 March 1957, the Soviet press carried an 8,000 word statement of Khrushchev's "theses" on the reorganization of the administration of Soviet industry and construction activities. By simplifying the management and planning for more than 200,000 industrial enterprises and 100,000 construction sites, Khrushchev hopes to improve efficiency which will thereby assist in pushing the rate of industrial growth back up to the 10 or 12 percent required by the present Five-Year Plan.

The theses, which were ordered to be developed by the February meeting of the Central Committee of the Communist Party of the Soviet Union, will be presented by Khrushchev to the next, still unscheduled, session of the Supreme Soviet of the USSR. An unusual introduction to the text states that the Party Central Committee and Council of Ministers decided to publish the theses in order to encourage wide popular discussion and broad exchange of opinion in the working out of details and that the theses only outline broad programs and problems but do not constitute final decisions.

The theses expand and elaborate the preliminary information on the February decisions previously published by the Soviet press and that given by Khrushchev and chief long range planner Baybakov to US newsman Joseph Alsop. They deal almost exclusively with the administration of industry and construction and have little or nothing to say about agriculture, national transportation systems, civil government, military organization, or the party.

While great detail is presented on some facets of the proposed reorganization, the omissions of many important problems--particularly the place of organizations such as armaments, aircraft, and shipbuilding industries in the new scheme--suggests that much planning remains to be done, or, more likely, that the theses have been heavily censored prior to public dissemination.

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There is reaffirmation of the primacy of heavy industry, reiteration that the main economic task of the USSR is the overtaking of the leading capitalistic states in per capita production, and confidence in the ability of the Soviet Union to fulfill goals of the Sixth Five-Year Plan. There is no reference to the December 1956 Central Committee decisions calling for a reduction in investment, increased housing, and a review of the Sixth Five-Year Plan goals. The reduced 1957 plan as well as all personalities, with the exception of Lenin, are also ignored.

The theses would abolish Pervukhin's three month old State Economic Commission for Short-range Planning. Whether Pervukhin is to be assigned another important task in the new system is not yet known.

## II. The New Organization

The theses state that the proposed sweeping decentralization will result in a structure similar to the former economic councils established by Lenin immediately after the revolution, but that the new structure will still hold the gains of central planning while maintaining the rights of the union republics. Regional economic councils are suggested as the basic units for administering industrial and construction activity. An economic council would be responsible for a geographic area and responsible to the existing government of that area. Examples described in the theses as ideal include a council for the Bashkir ASSR, one for the Sverdlovsk Oblast and one for Chelyabinsk Oblast. Other examples cited are Yakutsk and Magadan. Individual shops, mines, plants, construction jobs and technical supply organizations will be controlled by the local city government, the regional economic council, or the Council of Ministers of the particular republic--depending upon the importance of the specific enterprise.

The economic councils and the republics will be given operational control over the enterprises in their area and will even gain some planning authority. They will be able to allocate manpower, finances, material supply, and within the framework of the national plan, allocate products and locate new construction. The precise composition of the economic councils is not described, though some indication is provided. The Union Republics, however, will lose their specialized ministries, and will establish State Planning Commissions similar to Gosplan in Moscow.

The regional economic councils are to remain small, and are to use experts from local production, educational, and scientific organizations as "consultants" to augment their strength for complex problems. This system is already in use by the municipal and rural governments.

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The central government of the USSR will differ radically from its present form. There will remain only a few specialized ministries. Those abolished, according to the theses, will not be replaced by any similar unit with simply a new name and form. The Chairmen of the republican Councils of Ministers will take the places of the specialized ministers in the USSR Council of Ministers. The USSR Council will also include some subordinate Gosplan officials among its new members.

The State Planning Commission (Gosplan) will be greatly strengthened and expanded. It will take over some current ministerial responsibilities (others are to be given to the republics and the economic councils) as well as responsibility for the yearly plan and its implementation, now held by Pervukhin's State Committee for Current Planning, scheduled to be abolished. Gosplan will contain sections, as at present, for the important branches of industry and the section heads may be of ministerial level.

Gosplan will establish national economic goals, allocate resources among regions, determine rates of growth, handle plans for strategic stockpiles, review the work of regional planning bodies and control in detail the distribution of certain items in short supply.

Apparently, the existing committee on new technology, headed by Malyshev until his recent death, will be replaced by a new organization. The Committee on Wages and Norms once headed by Kaganovich is not mentioned, but the Committee on Construction is specifically retained as a part of the Central government.

The Ministry of State Control, under Molotov, is to be "drastically reorganized" with the aim of increasing its effectiveness. However, specific proposals for such a reorganization are not stipulated in the theses.

Accounting and statistical matters are to be centralized in a greatly strengthened Central Statistical Board whose chief will have membership on the Council of Ministers. The Board will also provide for machine data processing centers to be established regionally under its control.

Finally, many of the scientific, research designing, and similar institutions now subordinate to the specialized ministries and located in Moscow will be physically relocated in the areas of their chief interests and will be placed under the control of the regional administration.

It may be noted that a collateral result of the reorganization proposed in the theses will be the physical transfer of tens of thousands of intermediate level bureaucrats and technicians, mostly

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from Moscow and Leningrad to the provinces. A large part of the urban society of the USSR will unquestionably be affected.

### III. Problems and Objectives

The Soviet leadership necessarily has had to devote increasing attention to problems of economic organization and institutional practices. Stalinist controls which repressed managerial resistance to the pace of planned economic activity no longer exist. The nation has entered an era of tight labor supply. A rising trend of capital costs as the more lucrative natural resources are consumed, is increasingly a factor in economic planning. Agriculture and housing have emerged as increasingly critical major problems.

Although Khrushchev's theses explicitly deny that these radical organizational changes have anything to do with "some shortcomings (which) have come to light in the fulfillment of the national economic development plans", the general objective is to improve over-all efficiency in order to push the faltering industrial growth rate back up to the 10 to 12 percent annual average required by the policy of overtaking the industrial production of the West. The principal organizational and institutional problems facing the "collective leadership" comprise a formidable list. Most important problems to be dealt with are: (1) the detail involved in centrally planning and controlling an economy growing rapidly in size and complexity; (2) extreme vertical integration of industrial enterprises; (3) cross hauling; (4) fragmentation of construction activities; (5) bureaucratic obstructionism and duplication in the centralized, functional economic ministries; and (6) low level of utilization of local building materials not included in the national economic plan. Khrushchev is sure that the new regional form of organization will deal effectively with these problems; he expects it to be for industry what the virgin lands have been (thus far) to agriculture. Furthermore, he believes that the center can maintain sufficient control to insure that the authority to be delegated to the regional level will be exercised for the ends specified by the leadership.

### IV. Relevance of Proposed Changes

The new economic councils presumably would present the regional gosplans and, in turn, the new consolidated Gosplan with a somewhat smaller quantity of data in a more summary and integrated form than was obtainable from the 40 odd functional ministries to be abolished. The relationship of the economic councils to Gosplan would be somewhat analagous to that of the previous relationship between Gosplan and the functional ministries. Bringing economic direction closer to the enterprises may provide better direction with less bureaucratic delay.

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If the regional organizations can operate the system of direct distribution of material resources more expeditiously, vertical integration (i.e. the tendency to concentrate in a single plant the production of most component parts, from steel castings to windshield wipers, for a complex item such as a truck) may decrease as plant managers become more willing to rely on sub-contracting to highly specialized plants. This is the most important problem which the new system is designed to alleviate since reduction in vertical integration offers the greatest theoretical savings in labor and materials costs. However, the degree to which distribution of materials can be improved is doubtful, since chronic shortages have characterized the Soviet economy under the high growth rates imposed.

Control of all economic activity at the regional level should reduce cross hauling. The manager of a plant now might be willing to contract for supplies from a plant located across the street; failure to deliver materials can be taken up promptly with a nearby common superior instead of relying upon adjudication between rival bureaucratic empires in far off Moscow.

Consolidation of the bulk of construction in each region under a single organization should reduce the fragmentation of construction resources; as a result, the trend of rising construction costs may be halted. Khrushchev's theses, however, do not touch upon a number of problems in the construction sector which have been evident for some time. For example, the traditional emphasis on volume of activity as distinct from completion of capacity, the need for new labor saving machinery, further wage reforms, and additional housing, are not mentioned in the theses.

Khrushchev's belief that shaking up the apparatus will cut through the tangled skein of bureaucratic obstructionism--managerial desires to slow the tempo, resistance to technological innovation, protection of various vested interests--may be too optimistic. After the initial confusion the decentralized system may for a time, prove more responsive to the leadership's policies. But the development of counter tendencies, in time, seems not unlikely. Regional organizations may prove no more effective in controlling the activities of enterprise management than were the old central ministries. Regional organizations may be no less conservative in introducing new technology, and may have vested interests just as do the present centralized functional ministries. Similarly, since the new economic regions apparently will not cut across existing republic boundaries even when there are good economic reasons for doing so, the economic nationalism which Stalin repressed in the Nineteen Thirties could reappear in the economic councils of the Union Republics. This possibility, in fact, is recognized by Khrushchev in the text of the theses.

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## V. Maintenance of Central Control

Many of the obstacles to implementing the new system are explicitly recognized by the theses. The "commanding heights" of key economic decisions--overall goals for production, investment, labor productivity, cost reductions--remain the prerogative of the national leadership. At the same time, instruments of control over use of the newly delegated authority will be strengthened. Gosplan will absorb much of the existing Short-range Planning Commission and its powers will be broadened. The new Council of Ministers will include the Chairmen of the Union Republican Councils of Ministers ex officio, possibly as a counterbalance to nationalistic tendencies. The role of the Party as an instrument of control is to be enhanced further, and it will be supplemented by a reconstituted Ministry of State Control which apparently will become more political in nature. The traditional financial and statistical controls will be tightened and some effort will be made to revitalize the trade union.

## VI. Conclusions

Since Khrushchev became "first among equals", Soviet leadership has proceeded slowly and cautiously in the field of organizational policy. As time has passed, however, the leadership has evidenced increasing awareness of the need for more drastic organizational changes. Growing managerial resistance to "forced draft" economic growth, rising costs and increasingly critical problems in housing and agriculture are areas demanding action. Drastic revision of the planned 1957 economic goals highlighted these problems. Khrushchev's theses call for reorganization aimed at obtaining improved efficiency in construction, reduction of cross hauling, reduced duplication and increased sub-contracting. Such improvement may well result, except significant reduction of vertical integration through encouragement of sub-contracting is expected to be nearly impossible of achievement as long as the present rapid economic growth is maintained. Vertical industrial integration is more a function of tempo than of organization. Moreover, the development of a tendency toward economic nationalism among regions is a recognized danger. The problem confronting the Soviet leadership is how to encourage initiative at the lower echelons of management without sacrificing ultimate control.

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